

Message Text

LIMITED OFFICIAL USE

PAGE 01 QUITO 03705 051643Z

13

ACTION ARA-20

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07 SS-20 STR-08

CEA-02 FEA-02 INT-08 AGR-20 DRC-01 /165 W

----- 030787

R 051440Z JUN 74

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 1249

INFO AMCONSUL GUAYAQUIL

LIMITED OFFICIAL USE QUITO 3705

E.O. 11652: N/A

TAGS: EFIN, ECON, EC

SUBJECT: NATIONAL DEVELOPMENT FUND HEAVILY COMMITTED

REF: QUITO 238

SUMMARY: PETROLEUM REVENUES PAID INTO NATIONAL DEVELOPMENT FUND, EXPECTED BY THE FINANCE MINISTRY TO REACH \$144 MILLION THIS YEAR, ARE RAPIDLY BEING ALLOCATED AMONG GOVERNMENT AGENCIES CLAMORING FOR THESE RESOURCES. MORE THAN \$122 MILLION HAS BEEN COMMITTED THUS FAR. IN ADDITION, \$48 MILLION (EXACT AMOUNT STILL UNDER NEGOTIATION) WILL BE USED BEGINNING IN 1974 FOR PURCHASE OF 25 PERCENT OF TEXACO-GULF. CONTRARY TO EARLY HOPES OF THE CENTRAL BANK AND MINISTRY OF FINANCE, IN 1974 THE GREATER PORTION OF THE FUND'S DISBURSEMENTS WILL PROBABLY BE SPENT WITHIN ECUADOR, THEREBY INTENSIFYING INFLATIONARY PRESSURES. END SUMMARY.

1. THE GOE CREATED THE DOLLAR-DENOMINATED NATIONAL DEVELOPMENT FUND IN DECEMBER, 1973, OSTENSIBLY TO CHANNEL UNANTICIPATED PETROLEUM REVENUES INTO HIGH PRIORITY CAPITAL DEVELOPMENT PROJECTS. A PRINCIPAL OBJECTIVE OF THE MINISTRY OF FINANCE AND

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 QUITO 03705 051643Z

CENTRAL BANK IN CREATING THE FUND WAS TO LIMIT ACCRUALS OF FUNDS

TO DESIGNATED ENTITIES AND TO CENTRAL GOVERNMENT GENERAL REVENUES IN ORDER TO MODERATE GROWTH OF GOVERNMENT EXPENDITURE, PARTICULARLY THE ON-SHORE COMPONENT, AND THEREBY AVOID STRONG INFLATIONARY PRESSURES. HOWEVER, THE LANGUAGE OF DECREE 1393 (DEC. 14, 1974) ESTABLISHING THE FUND WAS FAR FROM CLEAR ON WHAT REVENUES WERE TO BE PAID INTO THE FUND AND HOW THIS MONEY SHOULD BE USED. IT SOON BECAME CLEAR THAT ROYALTY INCOME EARMARKED FOR THE MILITARY, THE ELECTRIFICATION INSTITUTE (INECEL, AND ESMERALDAS PROVINCE WOULD NOT BE PAID INTO THE FUND. THE DECREE SET UP AN INTERINSTITUTIONAL COUNCIL TO ADMINISTER THE FUND AND DIRECTED IT TO ISSUE REGULATIONS GOVERNING UTILIZATION OF THE FUND WITHIN 30 DAYS. THE COUNCIL, HEAVILY WEIGHTED WITH POTENTIAL END USERS, HAS FAILED TO DO SO; NEVERTHELESS, IT MEETS REGULARLY AND HAS TAKEN A NUMBER OF MAJOR DECISIONS TO ALLOCATE RESOURCES FROM THE FUND.

2. NINE PROJECTS APPROVED TO DATE WILL COST 3,055 MILLION SUCRES (\$122 MILLION) IN 1974 AND 1975. THE LARGEST SINGLE PROJECT IS THE ESMERALDAS PETROLEUM REFINERY (\$42 MILLION COMMITTED FOR 1974, NOT ALL OF WHICH WILL BE SPENT THIS YEAR). THE FUND IS EVENTUALLY TO BE REIMBURSED FROM PROFITS IN THE CASES OF THE ESMERALDAS REFINERY, EXPANSION OF THE EXISTING ANGLO AND GULF REFINERIES (\$1.5 MILLION) AND A LPG PLANT AT TEXACO-GULF'S SHUSHUFINDI OIL FIELD (\$3.2 MILLION IN 1974). THE OTHER SIX APPROVED PROJECTS, NON-REIMBURSABLE, ARE SCHOOL CONSTRUCTION (\$20 MILLION), FEEDER ROADS (\$17.5 MILLION), RICE IMPORT SUBSIDY AND EMERGENCY IRRIGATION (\$14 MILLION), ADDITIONAL CAPITALIZATION OF TWO DEVELOPMENT BANKS (\$10 MILLION EACH), AND A HOSPITAL IN CUENCA (\$4 MILLION).

3. ACCORDING TO PRESS REPORTS, \$48 MILLION FOR THE GOE'S 25 PERCENT PARTICIPATION IN THE TEXACO-GULF CONSORTIUM WILL BE PAID OUT OF THE FUND. THE EXACT AMOUNT AND THE TIMING OF PAYMENTS REMAIN TO BE DETERMINED. PROJECTS TO ASSIST HIGHER EDUCATION, SUBSIDIZE THE QUITO AND GUAYAQUIL SYMPHONY ORCHESTRAS, AND PRESERVE HISTORIC MONUMENTS HAVE BEEN APPROVED IN PRINCIPAL, AND ANOTHER DOZEN, INCLUDING A HIGH VOLTAGE QUITO-GUAYAQUIL TRANSMISSION LINE AND FUNDING OF THE NEW NATIONAL COMPANY FOR STORAGE AND DISTRIBUTION OF AGRICULTURAL COMMODITIES (ENAC), ARE UNDER STUDY.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 QUITO 03705 051643Z

4. THE PROJECTS APPROVED THUS FAR LARGELY COMMIT THE MONEY AVAILABLE IN 1974, AND PAYMENT FOR GOE PARTICIPATION IN TEXACO-GULF, IF MADE IN 1974, WOULD MORE THAN TAKE UP THE REST. ACCORDING TO MINFIN MONCAYO IN A RECENT PRESS CONFERENCE, 3,600 MILLION SUCRES (\$144 MILLION) WILL BE PAID INTO THE FUND THIS YEAR, TAKING INTO ACCOUNT THE GOE DECISION TO LIMIT TEXACO-GULF PRODUCTION TO 210,000 BPD AND ASSUMING NO

CHANGE IN THE REFERENCE PRICE; WE DO NOT YET KNOW WHETHER GOE PARTICIPATION IN TEXACO-GULF WILL ALTER MONCAYO'S ESTIMATE. WHATEVER THE ORIGINAL INTENT OF ITS PROPONENTS, THE FUND IS NOT BEING USED AS A DEVICE TO FREEZE PART OF THE PETROLEUM REVENUES AND DOWN TOTAL DOMESTIC EXPENDITURE.

5. EXPENDITURE OF RESOURCES FROM THE FUND IN 1974 WILL DOUBTLESS FALL SHORT OF COMMITMENTS. PAYMENTS OF \$42 MILLION ON THE ESMERALDAS REFINERY THIS YEAR ARE UNLIKELY; HALF THAT AMOUNT IS MORE REASONABLE. THE SCHOOL CONSTRUCTION AND FEEDER ROADS PROJECTS ARE PLANNED TO CONTINUE INTO 1975 AND PERHAPS BEYOND. ON THE OTHER HAND, FUNDS CAPITALIZING THE DEVELOPMENT BANKS WILL PASS QUICKLY INTO THE ECONOMY. THE BANCO DE FOMENTO ALONE LENT \$44 MILLION IN THE 6 MONTHS ENDING MARCH 1974, FAR MORE THAN IN PREVIOUS PERIODS. THUS EMBASSY ESTIMATES THAT 1974 EXPENDITURE OF THE NATIONAL DEVELOPMENT FUND'S RESOURCES WILL BE IN THE RANGE OF \$50-75 MILLION, NOT INCLUDING PAYMENT TO TEXACO-GULF. OF COURSE, THE RATE OF EXPENDITURE WILL BE DETERMINED, NOT BY THE FUND'S COUNCIL, BUT BY THE RECIPIENT AGENCIES.

6. WITH THE EXCEPTION OF RICE IMPORTS AND PURCHASE OF TEXACO-GULF SHARES, WHEN FINALIZED, ALL OF THE PRESENTLY APPROVED PROJECTS HAVE A HEAVY ON-SHORE COST COMPONENT IN 1974. IN THE CASE OF THE ESMERALDAS REFINERY, THE FIRST TASK IS SITE PREPARATION, INCLUDING EXCAVATION OF A MOUNTAIN SIDE, AT POSSIBLE COST OF \$10 MILLION. THE DOMESTIC CONTENT OF THE APPROVED PROJECTS WILL BE LESS THAN THE AVERAGE OF 90 PERCENT FOR ALL CENTRAL GOVERNMENT EXPENDITURE. NEVERTHELESS, IT IS CLEAR THAT THE FUND IS NOT BEING RESERVED EXCLUSIVELY TO COVER OFF-SHORE GOVERNMENT COSTS, OR PROJECTS WITH HIGH IMPORT CONTENT.

7. COMMENT: ALTHOUGH SOME OF THE APPROVED PROJECTS ARE WELL-LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 QUITO 03705 051643Z

ADVISED ON DEVELOPMENTAL GROUNDS, IT IS CLOSER TO THE TRUTH TO SAY THAT CERTAIN CABINET MINISTERS ARE RAIDING THE FUND TO CIRCUMVENT BUDGETARY LIMITATIONS THEY CONSIDER TOO RESTRICTIVE. IT IS INSTRUCTIVE TO NOT THAT THE MINISTERS OF NATURAL RESOURCES, PUBLIC WORKS, AND AGRICULTURE ARE MEMBERS OF THE FUND'S ADMINISTRATIVE COUNCIL. HEAVY USE OF THE FUND TO FINANCE PROJECTS WITH HIGH ON-SHORE COST COMPONENTS WILL, OF COURSE, EXACERBATE ALREADY HIGH INFLATIONARY PRESSURES. BREWSTER

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, GOVERNMENT BUDGET, FUND ALLOTMENT, REVENUE DATA, FINANCIAL PROGRAMS, DEVELOPMENT PROGRAMS, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 05 JUN 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: cunninfx
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974QUITO03705
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740143-0719
From: QUITO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740673/aaaacksa.tel
Line Count: 163
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: QUITO 238
Review Action: RELEASED, APPROVED
Review Authority: cunninfx
Review Comment: n/a
Review Content Flags:
Review Date: 12 SEP 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <12 SEP 2002 by WorreISW>; APPROVED <13 FEB 2003 by cunninfx>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: NATIONAL DEVELOPMENT FUND HEAVILY COMMITTED
TAGS: EFIN, ECON, EC
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005